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ARIZONA CORPORATION COMMISSION

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January 6, 2010

Re: Notice of Inquiry Regarding a Potential Arizona Feed-in Tariff for Renewable Energy Production; Docket No. E-00000J-09-0505.

To the Docket:

The Commission believes there is value in examining a Feed-In-Tariff ("FIT") as a possible additional tool for encouraging the development of renewable energy in Arizona and stabilizing rates for customers of Arizona's regulated electric utilities over time. Accordingly, the Commission is issuing this Notice of Inquiry ("NOI") to solicit input on FIT's generally and identify specific issues related to developing a potential FIT program in Arizona.

Several states have adopted FIT programs to bolster their renewable energy efforts and assist utility companies with meeting state renewable energy requirements. Arizona's Renewable Energy Standard ("RES") rules require 15 percent renewable by 2025, with specific provisions for distributed renewable energy generation.

At a recent Commission meeting, I was tasked by my Colleagues with formulating this NOI, which reflects questions suggested by all five Commissioners. Through this NOI the Commission hopes to receive stakeholder comment and input which will lead to future workshops addressing FIT's. The questions asked in this NOI are intended to serve as a foundation; however, stakeholders may take the opportunity to address other issues related to FITs which are not addressed in this NOI.

We look forward to reviewing the information provided to this docket, and to a fulsome and productive workshop process. It would assist the Commission if comments were filed in this docket by February 3, 2010.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Mayes", is written over a horizontal line.

Kris Mayes
Chairman

Cc: Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump
Ernest Johnson
Steve Olea
Janice Alward
Lyn Farmer
Rebecca Wilder

Arizona Feed-in Tariff ("FIT") Notice of Inquiry
Docket No. E-00000J-09-0505

The Arizona Corporation Commission has established a number of successful policies to support renewable energy generation in the state. The Distributed Renewable Energy Requirement, combined with net metering, has resulted in robust growth in customer-sited, customer-owned generation. And in order to meet the Commission's Renewable Energy Standard and Tariff ("REST") rules requirements, Arizona utilities have signed some contracts to procure power from large, central station systems. The Commission believes that there is an opportunity to accelerate the procurement of new wholesale renewable energy in the state through a new program targeted to mid-sized renewable energy projects (initially defined in the 0-20 MW range). Such projects can come on-line quickly as they do not need new transmission, have more siting opportunities, and are easier to finance. And as documented by the RW Beck report commissioned by Arizona Public Service Company, developing this market niche has the potential to provide significant benefits to Arizona ratepayers. The Commission intends to use this proceeding to determine whether it would be in the public interest to develop a policy to support greater development of projects in this size range, and if so, how such a program should be designed to best advance the Commission's goals.

1. Should the Commission develop a new policy to support procurement of wholesale distributed generation resources?
 - To what extent can Arizona look to other states/bodies/countries to apply lessons learned and best practices on developing a FIT program?
 - What states/countries have "model" FIT programs that can provide good insight. What are the various models of FITs, and what are the main distinguishing features?
2. Should the Commission develop a new policy to support the development of customer-sited distributed generation through a FIT?
 - Would the adoption of an FIT for customer-sited distributed generation create customer confusion?
 - If the Commission adopts a FIT designed to address customer-sited distributed generation, should it replace, in whole or in part, Up-Front Incentives ("UFI") and/or Performance-Based Incentives ("PBI")? Should the FIT be entirely additive to existing incentives?
 - What type of incentive (FIT, UFI, or PBI) is likely to result in the lowest overall lifetime cost of utilities meeting their annual renewable energy production responsibilities under the REST?
 - What are the comparative advantages or disadvantages of a FIT versus a PBI?
 - What are the comparative advantages or disadvantages of a FIT versus a UFI?
 - Would the adoption of a FIT affect the analysis of whether owners of distributed generation systems are public service corporations? If so, how? If owners of distributed generation systems are somehow public service corporations under an

FIT, would the Commission have to determine the fair value of each system before approving the FIT?

3. If you believe the Commission should develop a policy to support procurement of wholesale distributed generation resources, what policy goals should guide the development of such a program? For example, is the goal to guarantee a reasonable profit to developers, provide for procurement at lowest cost to ratepayers, promote local economic activity, etc.? The Commission has developed a draft list of policy goals that might guide the development of a feed-in tariff program for Arizona (Attachment A, below). Please comment on the proposed policy goals.
 - Please also provide your response to this question if you answer in the affirmative to question 2.
4. What is the appropriate size range of projects to target? What is the size of the potential market for projects in the size range you suggest?
 - Would a FIT provide a benefit to rural areas, urban areas, or both? Why or why not?
 - What benefits would procurement from projects in this size range provide to Arizona ratepayers? Would a feed-in tariff assist utilities in more quickly meeting their overall RES requirements, particularly in light of the apparent difficulty facing large-scale projects in achieving financing?
 - Should it be used as an incentive for higher value locations, such as recognized congestion zones or areas with anticipated higher capital costs?
 - Should it be used as a tool to attract customers who would otherwise be unable to make use of current programs such as Non-Profits, Non-taxable entities, Home Owner Associations and multi-family dwellings?
5. Should the Commission adopt a statewide FIT, or should FITs vary by utility?
6. In light of the proposed policy goals, what would be the most appropriate procurement method to use in procuring power from projects in the size range you recommend, and what cost or capacity limits should be applied to the program?
7. Assuming a capped program, on what basis should winning contracts be selected?
8. Would projects located in certain areas (e.g. congested areas), provide greater benefits to Arizona ratepayers, and if so, how might the Commission focus policy design to promote project development in these areas?
9. Please discuss what price-setting method would be most likely to: (a) capture changes in generator costs, (b) produce the lowest cost to ratepayers, (c) be easiest for Commission staff and utilities to administer, (d) encourage competition, (e) be mostly likely to result in viable projects (f) exert a downward pressure on prices and (g) best support the Commission's goals?
 - Should a FIT be created so as to be based on avoided costs or cost of technology plus a small return on investment?
 - Should the rates be a fixed price premium or a variable premium on price?
 - Which technologies should be eligible to participate in this program?
 - Should the FIT rate be the same for all qualified technologies, irrespective of technology type or generator size? If not, why not?
 - Should it vary depending on the time of day and reward generators more for on-peak production than for off-peak production? If not, why not?
 - What should be the applicable payment term of a FIT? 5, 10, 15 or 20 years?

10. In light of the policy goals and procurement mechanism you recommend, what additional elements must the Commission consider, e.g. standard contract development, rate recovery for regulated utilities, contract approval requirements, etc?
11. How should this new program fit into existing renewable energy requirements? Should it be additive to the RES requirement? Should generation procured under this policy qualify toward the Distributed Renewable Energy Requirement in the RES? Toward the non-distributed requirement in the RES?
 - Should all FIT expenses be recouped via the REST surcharge? If not, how should they be recouped?
12. Should there be any additional restrictions or prioritization of siting opportunities (e.g. should the program be restricted to rooftops, etc).
13. Are there legal or jurisdictional issues that should be considered in the development of a feed-in tariff program? If so, how might the Commission address those concerns in the design of the program?
14. Please discuss any additional elements that the Commission should consider.

Attachment A: Draft Commission Goals for Feed-in Tariff

1. Greatly accelerate the amount of wholesale renewable energy installed in the state.
2. Provide sufficient payment to simulate untapped market segments at the distribution level and build new projects while minimizing ratepayer costs and preserving competition.
3. Focus on projects of a certain size that can effectively mitigate the market and regulatory constraints (such as site control and permitting) that slow down development of larger renewable projects.
4. Minimize the transaction costs for the seller, buyer, and the regulator.
5. Adopt program design elements and a contract that adequately address project viability.
6. Facilitate interconnection of projects that efficiently utilize the existing distribution system.
7. Complement, but not impede or duplicate, existing renewable energy programs.
8. Provide sufficient regulatory certainty to create a sustainable marketplace for small distributed generation renewable developers.
9. Provide just and reasonable rates for the buyer, seller, and ratepayer.
10. Help Arizona's developing renewable energy industries mature by bringing down costs and enhancing expertise.